THE ROYAL BANK
OF CANADA

Proceedings of the 116th Annual Meeting of Shareholders

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The Royal Bank: Securing the Future

An address by

Rowland C. Frazee
Chairman and Chief
Executive Officer

Traditionally, the Chairman's Report to the Shareholders at our Annual General Meeting focusses on one or more issues of wide-ranging concern, such as the international debt situation, or the prospects for economic prosperity in Canada, or government monetary or fiscal policy.

In 1985, we are entering the middle year of a turbulent and particularly challenging decade, and so today, I want to alter tradition slightly and concentrate to a greater extent than usual on the banking industry and the Royal Bank in particular.

In a few minutes, you will hear the Report on the Year's Operations from your President and Chief Operating Officer, Allan Taylor. To put the two addresses in an appropriate context, I might quote from my remarks to you two years ago. I said then that what we are doing to secure our future is as important as how we are doing today. In our comments this morning, the first of these is my subject; the second is Mr. Taylor's.

What we are doing to secure our future is heavily influenced by the domestic and global economic environment. How firmly we secure our future will be determined by how well we understand that changing environment. It will be determined by how effectively we anticipate and prepare for it — as a nation, as an industry, as a bank. And this is the central point of my comments to you today — what we are anticipating, and how we are preparing.

The Banking Environment

On a world scale, clearly the most pressing problem for banks continues to be the burden of international debt. That problem has not been resolved. But it is being managed. The international system is adjusting to it and digesting it. A series of workable and pragmatic mechanisms have been developed, and they have been used effectively this last year, as in the case of the Mexican rescheduling. All of the participants — international agencies, debtor countries, commercial banks, and the governments of developed countries — have acquired a good understanding of the nature of their own separate responsibilities. Together, we must ensure that the debt problem continues to be effectively controlled; together, we must ensure continuing flows of trade and development funding.

There will undoubtedly be further difficulties. But as Mr. Taylor will outline more fully, the overall problem of international debt, and the general international economic environment are gradually improving.

That is outside Canada. How are we doing at home?

Well, it is sometimes said of Canadians that we are a modest people, reluctant to take visible pride in our accomplishments and too ready to concede to external criticism. There is evidence now of a tendency to ignore, or at least minimize, the solid economic accomplishments that Canada has recorded since the last recession passed its worst point at the end of 1982.

The first items being ignored are the painful adjustments in response to harsh reality. They have already been made in all parts of Canada — adjustments made by individuals, small businesses, corporations, financial institutions, labour groups and, indeed, some governments. Second, there is too little appreciation of the encouraging results that have already emerged.

Consider first the results. There are now 623,000 more Canadians working than there were at the end of 1982. Real economic growth since then has expanded by about 11%. Over 287,000 houses have been built. 1,650,000 new cars have been bought. Canadian price and wage cost increases are now as low as those in the United States, and what a change for the better that is.

Our international competitiveness, consequently, is in much better shape. For three years Canadian exports have grown at a good pace and we have had a surplus in the current account of our balance of international payments. This is in sharp contrast to the United States where the international trade deficit has moved well beyond $100 billion and is causing increasing concern.

In fact, it is even reasonable to contemplate that in 1986 the rate of Canadian economic growth could begin to outpace that in the United States. Given good economic policy in Canada, I believe it can. More than that, the Royal Bank is ready and able to finance that kind of growth, and would benefit very directly from it. Loan volumes would rise, and improvement in the existing portfolio would be accelerated.

Of course, Canada still faces major problems, including particularly high unemployment and some very depressed regions and sectors. But as a nation we need not hang our head in shame over the progress made last year and the year before. Some satisfaction, albeit quiet satisfaction to fit the Canadian character, is in order. A number of things have been moving in the right direction.

Challenges Already Overcome

But how did this happen? How was it achieved? It was achieved in large part by the millions of adjustment actions taken by Canadians all across the country.

Labour unions and others have accepted settlements that are in line with the new low inflation environment and the need to be internationally competitive — thereby improving Canadian prospects for continued recovery.

Consumers entered the recession with a fairly heavy debt burden. They have now put their financial house in order, in part through high savings, and are in a position to consider real increases in purchasing in the months ahead.

Canadian business three years ago found itself with a precarious equity base, excessive short-term debt and an unusually large portion of income going for interest payments. This crushing imbalance, while not yet fully corrected, is now visibly smaller than it was. As that adjustment continues, the day approaches when solid business capital spending can re-emerge.

The economic policy environment is becoming more stable. The Bank of Canada is continuing to ensure that monetary policy will not rekindle inflation. Interest rates, while still too high in both real and nominal terms, have come down considerably and the fluctuations have become less extreme. The positive change in foreign investment policy is already beginning to be noticed by outside investors; and while fiscal policy has a long way to go to bring the deficit down, there appears to be a determination to achieve that objective.

Most encouraging of all are the general signs that Canadian governments at all levels are paying serious attention to actions that will increase business confidence, and inject some vitality into the investment climate. In short, economic policy has begun to reflect current realities and the importance of this for future prospects should not be underestimated. It is a positive step forward.

And I would draw particular attention to what has happened within Canadian banking, as we managed *our* way through the recession. Major adjustments were needed and they have been pursued. The industry has added substantially to its equity base. Capital ratios have been improved. The growth of non-interest expenses has been sharply reduced.

Perhaps most important of all from the customers' perspective and speaking for the Royal, we put in place and are continuing a series of special arrangements aimed at assisting individual customers — farmers, mortgage holders and others — through an extremely difficult period.

And all of this was done at a time when the industry was absorbing Canadian loan losses which in the aggregate totalled billions of dollars.

Those losses are not an accomplishment. But the fact that the industry has been able to accept such losses without experiencing major instability is, surely, a considerable achievement. It is a particular tribute to the strength and resilience of the Canadian banking system.

The Challenges Ahead

So as I see it, most parts of the Canadian economy have already met a number of difficult challenges. They have made major adjustments. These justify our feeling fully confident that we, as Canadians, can also meet the challenges that remain.

And those are not small. One of the major challenges still facing us is improvements in industrial productivity. It is the key to creating the jobs and driving the growth Canada needs to reduce unemployment and secure current living standards.

Achieving it means that virtually every industry in the private sector faces major restructuring over the next few years. We need look at only two of the many external forces on business to see why.

The first external force is the growing internationalization and interdependence of domestic economies. In order to maintain our standard of living, and to improve it, Canadians must be able to sell internationally; other nations

must be able to sell here. For business, the result is that staying competitive means much more than keeping up with the fellow across the street. Bluntly, if we are not competitive with the best in the world, we are not competitive, *period*.

A second force for industrial restructuring is rapidly emerging technology. In every type of industry, from agriculture to aerospace, from mining to medicine, and from forestry to financial services, technology is bringing massive new possibilities. Time and geography are collapsing; old competitive strengths are eroding and new comparative advantages are being formed. The only choice business does *not* have is the choice of standing still, of sticking to the old ways of doing things.

Clearly, these interrelated forces make industrial restructuring unavoidable.

All industries, including financial services, need to examine their capital strength, to analyze management effectiveness, to control costs, to make the wisest possible use of new investment and new technology for increased productivity. All companies, including financial institutions, need to keep a constant watch on their competition, both existing and emerging. All of us need to conduct a continuous and diligent search for new products and new markets, innovating wherever possible to establish, maintain or increase our competitive edge.

In all these senses there is no difference between the financial services industry and other industrial sectors. We must all anticipate changes in our environment; we must all prepare for new and major adjustments in what we do, and how we do it.

It is not my purpose in these remarks to go into great detail about the process of restructuring within the financial services industry. There have been intense discussions already in the industry, and to some extent, these may be seen merely as different sectors within financial services jockeying for relative advantage.

Let me be categorical. The purpose of the process is *not* relative advantage — banks over trust companies, or both over brokers, or insurance companies. The purpose is, and must be, to serve the public interest — to improve our collective ability as an industry to put state-of-the-art financial services at work for our retail, commercial, industrial and government clients. Financial services are a vital underpinning for the entire functioning of the Canadian economy. Our ability to fully modernize our own industry, therefore, is a first, crucial step towards enabling the rest of the economy to meet its rapidly changing needs. And I am determined that The Royal Bank of Canada will continue to play a leading role in that process.

Restructuring at the Royal

Part of the answer lies in necessary change in public policy, law and regulations. An equally important part lies in changes to our own practices within the Bank — building on existing strengths, building on existing leadership.

There are forty thousand Royal Bankers serving millions of Royal Bank customers. We must decide today how we will serve them tomorrow.

Well, what developments do we anticipate? How, specifically, do we see customers' needs changing — whether those customers are governments, businesses or individuals?

There are some common threads. More speed, more variety, more flexibility. Better pricing. The effectiveness of custom-designed and packaged services, with the efficiencies of large scale, mass market delivery capability. Automation of all possible functions — to free people to do what cannot be automated. Expert knowledge of financing needs in customer businesses. And perhaps most important of all — financial, business and investment advisory services.

Those common threads lead to a large number of specific changing needs. Customers want more than conventional service at a conventional branch. They want banking tailored specifically to them — and they want better access. They want access at work, at home, on vacation, while shopping or travelling. They want electronic payments — monthly bills, payroll, government pensions. They want single vehicles to serve multiple needs — one account combining chequing, savings and investment features, or one card for credit and debit transactions. Independent business and the service sector — two major sources of new jobs — have increasing need for venture capital, and comprehensive financial advice. All customers expect more control of their funds on a minute-to-minute basis, and they want to be able to move those funds as their needs dictate. They want foreign currency and interest rate swaps; new forms of equity and debt instruments, and access to new investors at home and abroad. And they expect us to understand and anticipate those needs, to advise them on everything from saving for a college education, to running a counter-trade enterprise; from financing a house to financing a hydro-electric project. It adds up to a tall order.

And that is just a cursory description. As with all continuing challenges, they will be managed by large numbers of small steps; and I want to examine what some of those steps are. What has the Royal Bank done, what are we and will we be doing to meet those changing needs?

Anticipating the Future

Let me start with the implementation of technology. The words themselves as applied to banking are subject to varying definitions. I define them to include computer and telecommunications hardware, software and the people behind them. Technology expenditures at the Royal Bank now exceed 20% of total non-interest expenses, and that proportion is increasing by well over 1% each year. Operations and Systems within the Bank — the source of technology developments and applications — employs 10% of our total staff worldwide. Research and development at the Royal — and this is a figure that may surprise you — includes some 1,200 people, occupied full time with the design, development, upgrading, testing and implementation of new technology and its applications.

If we put this all together — the costs of people, hardware, software and maintenance for everything from vital but routine items such as cheque clearing, to completely new computer telecommunications networks and programmes — the Royal Bank commitment for the next five years in this area will total in excess of $2 billion.

These are huge expenditures. What, specifically, is the Bank getting for those dollars? What are the customers getting? What do those expenditures buy today? What do they buy in future?

For consumers, one of the first things they buy is more efficient and more flexible access to banking services. As of today, the Royal alone has 725 banking machines in Canadian locations from coast to coast, over a third of the total for the industry. With other VISA banks, and caisses populaires, we are establishing a shared network. At first it will include some 250 strategically located automatic banking machines, each of which will allow access to a customer's accounts in any of the participating institutions. In shopping malls and other locations, this initial network will allow all of us — bankers, customers and retailers — to gain experience towards electronic payment at the point of sale. We expect that number of machines to grow rapidly in succeeding phases.

We are joining the PLUS network in the United States — so Royal Bank customers will be able to access Canadian account balances and withdraw cash from some 3,800 locations in that country. And that is just the beginning, with Europe, the Far East and other areas to come.

For business customers of all sizes, the Royal's expenditures on technology amount to moving a bank branch onto their own premises. As of today, over 400 corporate and commercial clients have computer terminals connected directly to the Royal. These are used for cash management, to determine balances and transfer funds between accounts wherever they may be deposited; they are used for instructing the Bank to make payments on the clients' behalf, virtually anywhere in the world; they are used to update and change payroll information — and all of that happens without any need to visit a Royal Bank branch or office.

In future, most if not all routine services, from letters of credit to foreign exchange trading will all be offered via remote terminal. From the smallest independent business, to the largest multinational, the Royal's office will be in their office.

And the same flexibility will be available to governments. Electronic funds transfer is already being used by many corporations and some provinces for a growing number of payments to individuals and businesses. Some 100,000 Quebecers, for example, receive provincial pension payments by direct electronic credit to their account. Soon, we expect the federal government to take increasing advantage of this system for the millions of payments made each year by Ottawa.

Electronic funds transfer, of course, is just a beginning. Over time, the Royal's own global information and service delivery network, along with those of other Canadian banks as they are developed, will provide to government customers the same efficiency, flexibility and cost savings that are already and increasingly used by corporate customers.

Those then are some of the answers to the question of what our technology dollars are buying. The Royal is in a leadership position now, and we intend to maintain and increase that lead, to provide an edge in financial services to Royal Bank clients, in Canada and around the world.

Meeting the Market

But integrating technology into our operations is not all we are doing to secure our future. We are also working intensively on the

pricing, marketing and packaging of our services. To a degree, bank services have always come in packages. But in the past, it was not unusual to find that certain of the bundled services were more useful to some customers than others. Some customers and some services subsidized others. It was difficult for a customer to know what a specific service cost; it was difficult for us to know whether it was profitable.

Market "niche" competition changed all that. Customers who wanted only one or two specific services could be wooed away by more attractive pricing from competitors selling only that service. If a bank hoped to keep that customer and add new ones, more services had to be separately priced, and they had to be competitive and profitable on their own merit — the principle of user-pay.

Now banks still bundle services, and sell them at a combination price, but the components are better tailored to actual need. Most important of all, in future the bundles are increasingly going to be designed by the customer to reflect his or her specific requirements.

A third example of change to secure our future is the quality and variety of our people and the specialized knowledge we are increasingly accumulating within the Bank. Some time ago, we established an account management system for large multinational customers. The approach is spreading rapidly to other categories of client, and it is based on specialized, expert financial services knowledge as applied to a customer's industry and company. Market segmentation has led to the gradual but comprehensive redesign of our organization into dedicated, specialized service units.

Without that expertise, we could not provide financial services that are efficient, innovative and precisely tailored to changing needs. The staff of agrologists who serve our agricultural market is one of many cases in point.

The result is that the account officers who deal with farm clients, for example, today are immeasurably better trained and far more knowledgeable about their customers' businesses and financial needs than my generation ever was. It is a change as striking as the developments in technology.

There are numerous other examples of strategies and plans in place now, and actions taken, by the Royal, aimed not at the next quarter, but at the next quarter century. Refinements to our network; the growing capability of Orion Royal, our merchant bank subsidiary, expertise which one day we hope will be permitted to serve Canadian customers in Canadian financial markets; joint ventures such as China Investment and Finance in Hong Kong, a partnership with China International Trust and Investment Corporation, an agency of the Government of the People's Republic of China. The list is a long one; it is being added to every month by Royal bankers around the world.

Before Christmas, I received a letter of seasonal good wishes from a friend in the United States. It included a quotation that seems apt for the annual cycle of this institution. It said: "Year's end is neither an end nor a beginning, but a going-on — with all the wisdom that experience can instill in us". And so it is here in the Royal Bank.

Indeed, whether we talk of government fiscal policy, or industrial restructuring, or the Royal's investment in technology, we are not addressing once-and-for-all problems, but rather ongoing processes. Our ability as a society, as business people, as bankers, to manage those processes and get them right will continually be tested. The solutions will continue to be found, not in overnight miracles, but in a continuing chain of long-term planning and day-to-day decision-making; in knowing how our environment is changing and in changing the shape of our Bank to fit that newly emerging world. That is what we are doing. That is what we must do. That is what we will continue to do.

A Report on the Year's Operations

An address by

Allan R. Taylor
President and Chief
Operating Officer

Most of us today have come to accept the rapid pace of change as a fact of life in the late twentieth century.

Mr. Frazee has already described what the Royal Bank is doing to design our future — with the new tools of technology; new sales and marketing techniques; and new ventures in new markets.

But the constant challenge of our era is not only to "make it new", by innovation or adaptation to change. It is equally important to know what *not* to change in an organization as unique and successful as The Royal Bank of Canada.

Long-Term Strengths

At least three major strengths of the Bank place us in the front ranks of the financial services industry — worldwide.

One is the size, and granite stability, of the Royal's financial resources. Another is the broadly-based and diversified nature of our national and international operations. And then, in a class by itself, there is our strength in trained, talented and dedicated people — some 40,000 Royal bankers at work in Canada and in 45 countries around the world.

These three are the *permanent* strengths of our organization. After 115 years of profitable service, we won't change them — except to build on them.

Our financial strength, diversified operations and the calibre of Royal Bank staff, are the strategic base for our response to changing customer needs and competitive opportunities in financial services, which Mr. Frazee outlined. Equally, they are the reasons for our soundness and security in a period of almost unprecedented difficulty for our customers and, therefore, for us.

A Year of Transition

This is the story behind the numbers in our operating results for fiscal 1984. The same strengths that carried us over the pit of recession are now sustaining our performance — and our ability to support our customers — in the long, slow climb of global economic recovery.

A more temperate economic climate *is* healing the damage done by oil price and interest rate shocks, and the onset of recession, only three years ago. There *is* fresh growth in the industrialized world; and the renewal of world trade flows *is* thawing out the economies of the developing nations as well.

But the plain fact is, many of the problems of 1983 were still with us in 1984. It was a harder year than expected. Even now, a great many companies, many national economies and key industrial sectors in Canada and abroad, have not yet come in from the cold.

In North America, for example, there is still a stubborn knot of problems in the oil service, real estate and forestry industries of both the Canadian and American West. At the Royal, we were disappointed that greater portfolio improvement did not result from our hard work in these areas last year. But we also have long experience of success to draw on — such as in energy financing, where the Royal Bank earned an international reputation as a pioneer. We know the resource industries; the cyclical nature of some of them; and their fundamental importance to the North American economy. So, we are not about to back out on our long-term commitment when the going gets rough.

I would say very much the same thing of the Royal's involvement in the international arena, in general and, in particular, our responsibilities in the management of the Third World debt situation — which we take very seriously indeed.

Later on, I plan to comment further on the growing improvements in the international outlook. For now, I would like to emphasize that the Royal Bank has no intention of pulling back internationally. We have been very successful for more than a century of international business, since we first started helping Canadian exporters and investors do business abroad — particularly, in Caribbean and Latin American trade. We remain committed to making our success continue, and to full participation in the resolution of debt problems in developing countries. As the situation now stands, even the

most acute of these problems remained *manageable* throughout 1984. And *they are being managed today* because, on this critical issue, the international financial community has achieved and maintained solidarity.

In this difficult environment, the Royal's Domestic operations once again put in the stronger showing, just as in 1983. All of our people made extraordinary efforts to make 1984 a good year for the Bank — and, in many cases, this involved trying to help troubled customers return to health and profitability.

I have just told you about our commitment to international cooperation and stability. The specialists in our Sovereign Loans Group are the people steering us through the long process of loan reschedulings for government borrowers in serious financial difficulty. For the most complex and time-consuming problems among our corporate accounts, such as those in western Canada and the United States, the senior officers of our Special Loans Group are dedicated to finding the solutions. Meanwhile, every one of the Royal's Canadian and international regional headquarters has specialized groups whose mandate is working out problem loans with individual and business clients.

On all fronts, professional experience and single-minded effort are achieving results. Our total non-performing loans and loan loss experience started to come down in 1984, with improvement in Canada leading the way. There were significant reductions in non-performing loans to Canadian consumers and large commercial and corporate accounts. At the same time, we saw actual loan losses in Canada fall by 19%, again in the area of personal lending and also in our loans to independent business and farm clients, in particular.

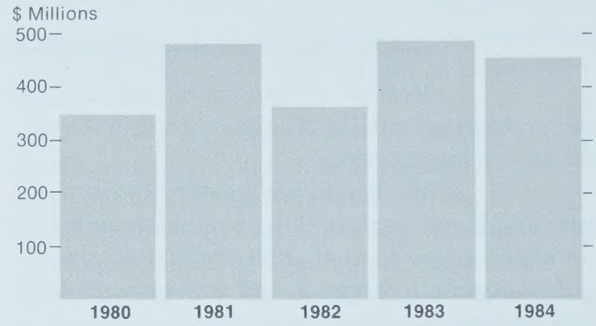
In fact, with some $3 billion in loans outstanding to Canadian farmers today, the Royal's experience with 19 out of 20 farm borrowers is excellent. And we don't see that changing.

I am well aware this doesn't match the general perception of problems in this vital sector of Canada's economy. So, let me add that conditions *are* currently very hard for farm management. For those caught in serious financial straits, the pain is real. But it is still true that only about 5% of the Royal Bank's farm clients are now in this situation. And we have been going all-out to keep them on their farms and in business, for a better day when they can pay back their loans. To leave no room for doubt in the matter, last year we went so far as to publish the details of our continuing commitment to Canadian farmers in agricultural journals from coast to coast.

The Measurement of Performance

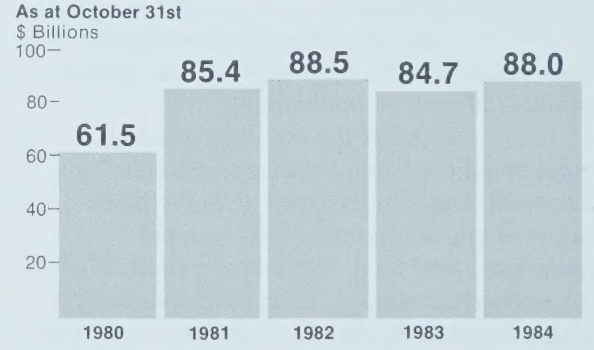
Overall in 1984, though the rigours of the year took their toll, the Royal *did* turn in a very creditable performance by almost any standard of measurement — except the high goals we set for ourselves.

Net Income



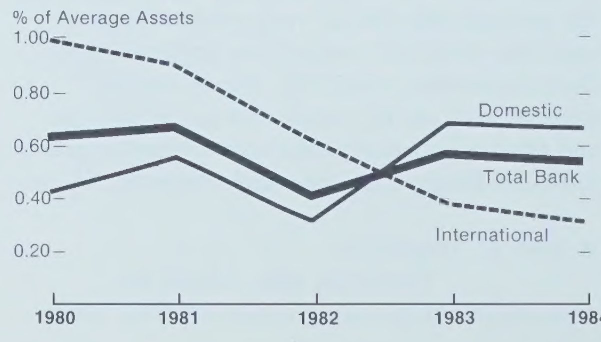
In spite of continued weakness in business demand for credit and ongoing problems in our existing loan portfolio, the Royal earned $450 million in fiscal 1984 — down 6% from 1983.

Total Assets
As at October 31st



With total assets of $88 billion at year-end — virtually unchanged from 1983 — the Royal Bank remains Canada's largest financial institution and the one with the highest earnings.

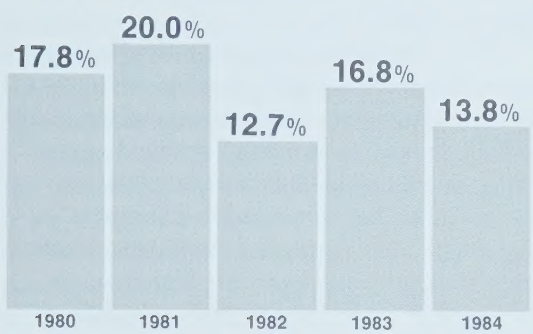
Return on Assets



However, last year our return on assets declined slightly — from 55 to 52 cents for each $100 in assets. This compares with our average return on assets of 55 cents for the past five years. And this key measure of profitability in banking places us second to only one of the other Canadian majors for fiscal 1984.

When the international comparisons come in some months from now, it is more than likely that the top performers among the world's biggest banks will once again include the Royal, as they did in 1983.

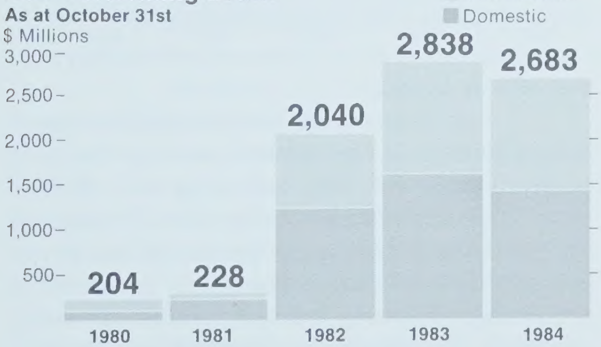
Return on Equity



Although our return on equity came down from 16.8% to 13.8% for 1984, this is still an attractive return for our shareholders, when you also consider that inflation was only about 4% during the year.

We have these and other good reasons to take pride in our total performance in a "go-slow" recovery year. To gain momentum, the world economy needed more time, more proof of international stability, and what we're seeing now — the down-slope in interest rates.

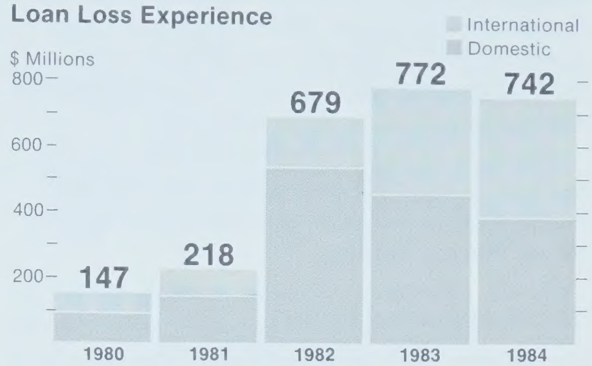
Non-Performing Loans
As at October 31st



Undercutting the Bank's progress — in spite of our best efforts and the improvements I have described — was the level of non-performing loans, which remained obstinately high and divided almost evenly between Canadian customers and those on the Bank's international side.

The unprecedented number of borrowers unable to pay interest on their loans has been the single most important factor affecting the banking industry, and depressing bank profitability, since the end of 1981.

Loan Loss Experience



Actual loan losses, on the other hand, now appear to be past their peak; and we expect to see significant reductions in future. However, loan loss experience will continue to affect reported earnings because of the five-year averaging formula that Canadian banks are obliged to use.

This unique feature of Canadian banking profitability accounting goes a long way towards explaining why we at the Royal cannot be satisfied with our present level of results. So, I would like to take a moment to remind you of how the five-year averaging system works.

Over the last three years, the Royal Bank has recorded some $2.2 billion in loan loss experience. That is hard evidence of the recession's impact on our customers in Canada and abroad. It is also a fair indication of the extent of reserves we've made for problem loans.

If the Royal were a U.S. bank, however, the actual loan losses would have been charged to earnings in the years in which losses occurred. Instead, under Canadian regulations, loan loss experience is charged to income on a five-year averaging formula. Any difference between this average figure and actual losses is then applied to the Bank's capital account, where it becomes a charge or a credit to capital, depending on whether actual losses exceed the five-year average or not.

Net Income
$ Millions

	1984	1983
Net income as reported	450	480
*Less: loan losses not charged to income (net of taxes)	(104)	(161)
Adjusted net income	**346**	**319**

*Charged directly to capital

Effectively, this system can result in bank earnings being *overstated* in years when loan losses are rising or higher than the five-year average. You may recall that I demonstrated the "overstatement" at last year's Annual Meeting. Again, without the five-year averaging formula, the Royal's net income this year would be reduced from $450 million to $346 million.

On the other hand, bank earnings can also be *understated* when loan losses decline below the five-year average. This is the direction we are moving in today.

The International Outlook

The initial signs of real improvement were last year's declines in our Domestic loan problems and loan loss experience — for the first time since the recession hit home in Canada in 1981. With the warming trend in the global economy, and the all-important decline in real interest rates now being experienced, we expect continued loan portfolio improvement, in Canada and internationally, this year.

Focussing on the international debt situation, I'd like to get right down to the case for confidence in the short-term progress and long-term recovery of borrowing countries.

First, there is the evidence of 2½ years of progress already made in stabilizing what was a very difficult, very fragile situation. Since August 1982, we have helped bring the borrowing nations through the first phase of accomplishment — the short-term restructurings. Now, we are into Phase Two, which means, first of all, stretching out the terms of repayment. And it is no catastrophe for either public or private sector lenders that we will have to wait — say, 12½ years for Venezuela or 14½ years for Mexico — to see the principal of our loans repaid.

Just as important as the international cooperation achieving the debt reschedulings, is the reconstruction of the economies of the borrowing nations. The effort to establish long-term, *sustainable* recovery programmes for these countries, and their commitment to them, has been part and parcel of the restructuring process right from the start. And for those countries showing the ability to bring about real improvement, reductions in the cost of credit are now a necessary and valuable recognition of their achievements and their return to creditworthiness — which is our ultimate aim today.

Mexico is the outstanding example of the tremendous degree of adjustment a nation can make, engineering its own economic recovery. At the Royal, we estimate that Mexico will record a $12½ billion trade surplus in 1984 and a $3 billion current account surplus — double the original projection.

In fact, it now looks as though Latin America as a whole has entered a new era of positive growth. To quote the revised world economic outlook published by the International Monetary Fund last September: "The growth rate of the Gross Domestic Product of developing countries in the Western Hemisphere is projected to average only about 1% in 1984 and about 3.5% in 1985. Nevertheless, the resumption of growth in Latin America represents a significant change from the 1¼ and 2¾% declines in output in 1982 and 1983."

In other words, these developing countries have resumed their development. Helped by significant growth in economic activity in the United States and other developed countries, they expanded their export sales in 1984. Today, *all four* of the major borrowers — Mexico, Brazil, Venezuela and Argentina — are in strong trade surplus positions. Now too, the critical factor of lower interest rates is assisting their current account balances.

Certainly, we're not out of the woods yet. But we've come a long country mile since the summer of 1982. We need reasonable world conditions in interest rates, commodity prices *and* continuing trade flows to assist the real work of international cooperation and domestic reconstruction. Given these, there is a more favourable near-term outlook. They would also ensure renewal of the long-term growth potential of the borrowing nations.

The Benefits of Diversification

For the Royal Bank itself, you can be sure that risk management remains a fundamental part of our international strategy, now and in future.

This means, for example, that we made a substantial new general provision for country lending in 1984, in keeping with the views of Canada's Inspector-General of Banks. This provision was the principal reason for last year's increase in our loan loss figure. It is a fact that outright losses on loans to governments are rare birds. You have to hunt through the history of international finance to find them. Nevertheless, we will continue expanding our cumulative general provisions as deemed necessary.

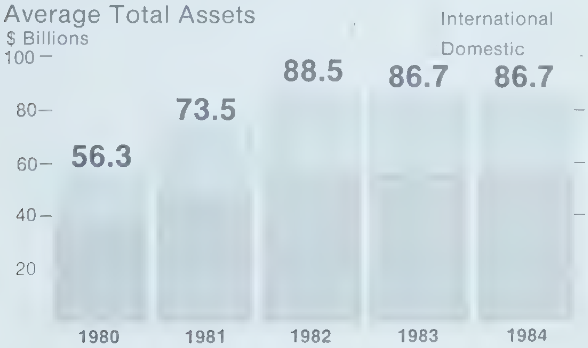
On a day-to-day basis, we are also continually strengthening our risk management capabilities in the analysis, review and approval process of credits. Here, technology has given us

some of our most valuable tools, such as our Risk Asset Monitoring System. This high-tech management information system, now being installed bankwide, will improve the updating and analysis of the Royal's total loan portfolio — better to avoid overconcentration in any geographic area, any industrial sector, or any class of credit exposure.

Getting right down to basics, though, the most effective way of managing risk is diversification. And that has always been the Royal's policy and practice in building a solid base for our Bank.

On the liability side, the diversification of our funding capabilities gives us both strength and maximum flexibility. We maintain a very strong liquidity position in the interbank redeposit market in Eurodollar funding — compared with *any* bank. With liquidity at the level of 30 to 35% of foreign currency assets, it is not necessary for us to scurry to the money markets all the time, buying at the highest cost. And this conservative liquidity policy is coupled to the fundamental strength of the Royal's domestic deposit base. Today, this large and stable funding source stands at some $31 billion in core consumer deposits.

Domestic/International Breakdown
Average Total Assets



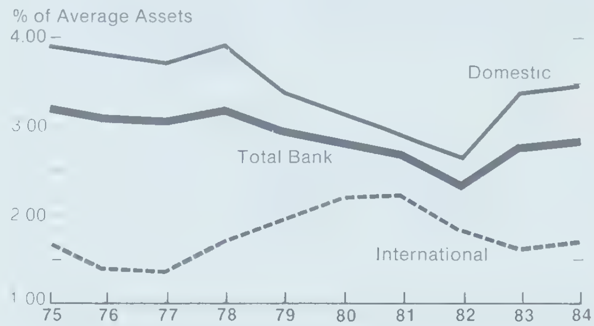
Similarly, on the asset side, the beauty of diversification is, of course, that multiplying your profit streams divides your risks. So, our traditional split of one third International and two thirds Domestic assets has served us well over the years. And on the International side, for example, the Royal Bank did *not* lead the pack into sovereign risk lending to the major Latin American borrowers — even though we are one of the world's leading international banks, with a long history in Latin America. In terms of our exposure as a percentage of bank capital, the Royal is consistently well down the list of the ten largest banks in North America.

In 1980 and again as recently as 1982, the International side of the Bank made the

Domestic/International Breakdown
Net Income

major contribution to our total earnings. For the last two years, it has been the turn of the Domestic bank to deliver the goods, while we experience the squeeze on the International side.

Net Interest Margin



The overall improvement in the Bank's spread — the difference between what we pay on deposits and what we earn on loans and other assets — certainly was a major factor in maintaining our profitability. But I want to be very clear that there is absolutely nothing unusual about our spread of 3.49% on Canadian business last year. *Lower* and more stable interest rates continued to benefit the Bank, just as they did borrowers.

Both Domestic and International business margins improved in 1984. The one being mainly retail business, the other wholesale, there is always a difference in the operating costs and, therefore, in the spreads. In combination, they gave us a total Bank spread of a normal, satisfactory 2.86% — still below the average spread of 2.90% for the last ten years.

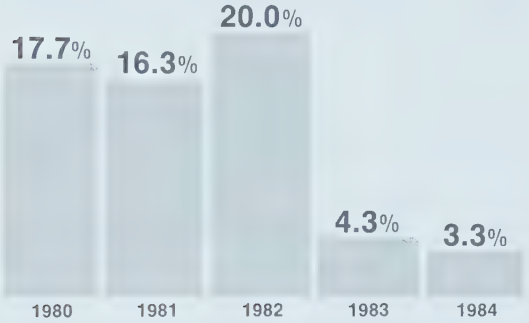
The Priority of People

As I see it, the determining factor in meeting the challenges of 1984 was the quality of our people and the performance they gave.

I have already told you how they worked to solve the credit problems of hard-pressed clients in every area of our business. Wherever there were gains to be made in market share — for example, in some personal lending

and deposit services — the staff in our 1,440 branches across Canada followed through in 1984. They brought our total mortgages to the Canadian public to close to $9 billion — a full 12% increase over 1983. And they did all this and much more, introducing new products and services to our clients, while keeping a firm hold on our operating costs.

Growth in Non-Interest Expenses



In fact, non-interest costs were held to a growth rate of 3.3%; and we are very proud of this achievement, because it represents *real* productivity gains and disciplined planning. There is no wholesale programme of staff reduction at the Royal Bank. On the contrary, we make people our priority. When in the normal course of organizational change, employees are displaced, it is our policy to retrain and reposition them, wherever possible.

So, while we keep working hard to control costs, we are still making increasing investments in two areas. The investments in high technology, which Mr. Frazee detailed for you, give us the competitive advantages and the management tools our people need to help them deliver Royal Bank quality service to our customers. The matching priority is increased investment in staff training and development — up a full 25% over 1983.

The rationale is simple. We not only look to technology to free our people for more interesting, more valuable work. In an $88 billion organization, we also want the highest degree of excellence in the work of management and specialists alike; and we want continuing enhancement of the knowledge and abilities of *all* our employees. Their professional expertise is positioning us for the future, as one of the few financial institutions anywhere that is capable of "universal service" to meet customers' needs.

Capital Funds

Financial Resources

Underpinning all our other strengths, now and in future, are the financial resources of the Royal Bank.

I have told you of the outstanding strength of our diversified funding sources. Our conservative liquidity position and our $31 billion in core consumer deposits have given us stability and flexibility in funding, through even the most volatile years of the 1980s.

At the same time, we have steadily reinforced the Bank's capital ratios and more than *doubled* our total capital, just since 1979. Our capital funds increased by 15%, or $659 million, in 1984 alone. In addition, since year end, we have raised another $104 million through our Shareholder Dividend and Share Purchase Plan.

In the next few years, we expect to see dramatic growth in our rate of internal capital generation. One of the reasons will be the anticipated decline in loan loss experience. As it falls below the five-year average, it will start to generate credits to our capital account.

While it may not be reflected in the dollar totals of capital, I have always believed that the breadth of the Bank's ownership, as a widely-held corporation, is also a significant strength and stabilizing influence. The number of our shareholders has been growing considerably, to a current total of some 90,000. This number is likely to grow even further in 1985, with the introduction of our new Employee Savings and Share Ownership Plan. Starting in 1985, our staff who choose to participate will receive Royal Bank shares, 50 cents on the dollar of the employee's annual contribution — up to a maximum contribution of 6% of salary. We are genuinely proud to help and encourage more of our staff to participate in ownership of the enterprise in which they work.

Ladies and gentlemen, the Royal Bank today is ready, willing and able to seize the future. Our investments in people and technology, our strategic moves and any steps we may take to enhance our diversified operations, will build on the unchanging strengths of the Bank today.

Minutes of the 116th Annual Meeting of Common Share Holders

The 116th Annual Meeting of the Common Share Holders of The Royal Bank of Canada was held at the Head Office of the Bank in Montreal on Thursday, January 10, 1985 at 11:00 a.m. As designated by the Directors the Chairman of the Board, Mr. Rowland C. Frazee, acted as Chairman of the meeting and the Secretary of the Bank, Mr. R.J. Moores, acted as Secretary of the meeting. The Chairman declared that as notice of the meeting had been duly given and a quorum was present, the meeting was properly convened. The Chairman advised that the languages of the meeting were English and French. He then explained the voting procedure to be followed and appointed Messrs. F. Gareau and W.J. Johnston, officers of Montreal Trust Co., to act as Scrutineers.

The Chairman stated that a copy of the minutes of the last Annual Meeting of Shareholders of the Bank held on January 12, 1984 had been sent to each Shareholder as required by the Bank Act and unless there was any discussion they would be taken as read and adopted. Accordingly, the minutes of the last Meeting of Shareholders were adopted.

The Chairman referred to the Annual Statement as at October 31, 1984, copies of which had been distributed to Shareholders, and to the Directors' Report, and called upon the Secretary to read the Directors' and Auditors' Reports.

Directors' Report
To the Shareholders,
The Royal Bank of Canada

The Directors of The Royal Bank of Canada have pleasure in submitting to the Shareholders the one hundred and fifteenth annual Directors' Report as well as the Annual Statement for the financial year ended October 31, 1984, which includes the Consolidated Statement of Assets and Liabilities of the Bank, and the Consolidated Statements of Income, Appropriations for Contingencies and changes in Shareholders' Equity for the year then ended and the Auditors' Report with respect to those statements.

In accordance with the usual practice, the assets of the Bank have been carefully valued and provision made for all bad and doubtful debts.

During the year, 15 branches were opened and 31 were closed in Canada; and 8 were closed outside Canada. The total number of branches in operation on October 31, 1984 was 1,512 of which 1,440 were in Canada and 72 were in other countries; in addition the bank owns more than 10% of the voting shares in 101 subsidiaries and affiliates throughout the world.

The Directors wish to place on record an expression of sincere appreciation to all members of the staff both in Canada and abroad, for their contribution to the success of the Bank during the past year.

Respectfully submitted

Rowland C. Frazee
Chairman and
Chief Executive Officer

Montreal, January 10, 1985

The Auditors' Report was then read by the Secretary (this report appears on Page 54 in the Annual Report).
The Chairman then said:

"Before dealing further with these reports, I should like to make some comments.

I would like to place on record the appointment of five new directors since the last meeting of shareholders. Since they are new, I would ask each of them to stand and be recognized as I call their names. Mr. Robert W. Campbell, Calgary and Dr. John R. Evans, Mississauga on March 6, 1984, Mr. Robin W. Adam, London, England on April 3, 1984, Mr. Ralph A. Pfeiffer, Jr., North Tarrytown, N.Y. on June 12, 1984 and Mr. J. Edward Newall, Mississauga, on September 5, 1984.

It is with regret we advise that eight directors will not be standing for re-election today. Four of these are ineligible for re-election by reason of age. They are Mr. T.J. Bell, Toronto, who has served since 1967; Sir Alastair Down, London, England, who has served since 1981; Mr. Tong Louie, Vancouver, who has served since 1979; and Mr. A.M. Runciman, Winnipeg, who has served since 1976.

Regrettably, also the following will not be standing for re-election for a variety of personal and business reasons.

Mr. R.B. Cameron, New Glasgow, who has served since 1973; Mr. J.D. Maclennan, Vancouver, who has served since 1979; Mr. John R. McCaig, Calgary, who has served since 1980 and Mr. L. Merrill Rasmussen, Denver, Colorado, who has served since 1978.

We have a very large Board by conventional industrial standards but certainly not inconsistent with Canadian banking practice. It is highly representative of the distribution of our global business. The directors make a very significant contribution at the corporate level and I like to think there is a healthy interface between the Board and the management of the Bank to the benefit of the shareholders, whom they represent. A certain amount of Board activity centers around the committees of which we have five of the more conventional type, but one of the greatest contributions the directors are able to make is through the regional committees which meet in the areas of Canada where we have district headquarters — Halifax, Montreal, Toronto, Winnipeg, Regina, Calgary and Vancouver, as well as London, New York and Coral Gables or Nassau on the international side.

We wish to express particular thanks to the directors whose retirement I announced for their dedication and contribution to the affairs of the Bank during the period in which they served as directors.

I can tell you that the Bank and therefore the shareholders have benefitted from their advice and counsel and I personally owe them a great deal for their support and guidance. I have no doubt that they will continue to take an interest in the affairs of the Bank and hopefully make their contribution as customers, which is not something to be minimized.

Having said all of this about the retiring directors, I have to point out we are fortunate that we have such distinguished new directors to replace them and management looks forward to working with them closely in the years ahead.

I might mention at this time that as a broad statement of policy it is our intention for the foreseeable future to maintain a somewhat smaller Board than has been our practice in the past. I would emphasize, however, that we will continue to seek a fair distribution on a geographic basis, as well as the various sectors of business and professional life in this country and abroad. The ultimate criterion will continue to be the personal qualifications of those invited to join this Board.

I also want to recognize a special group here with us today. As many of you know, it has been our usual, if not invariable custom, to invite a number of employees and their spouses, from other than Head Office, to join us for the Annual Meeting. They represent branch and departmental offices, in Royal Bank locations around the world, from Bangkok to Barbados; and in communities across Canada. They also represent thousands of their fellow employees in those offices, and I would ask them to stand and be recognized as a group."

The Chairman then delivered an address on the subject "Securing the Future". (The text of Mr. Frazee's address will be found on page 1 of these proceedings.)

The Chairman then called upon Mr. Allan R. Taylor, President and Chief Operating Officer, to address the meeting. (A fuller report on the year's operations by Mr. Taylor is presented on pages 9 to 26 of the Annual Report.)

The Chairman then declared the meeting open for the nomination of directors.

Mr. R.B. Casgrain nominated the following persons to be directors of the Bank:

Robin W. Adam, John Anderson, John A. Armstrong, Ian A. Barclay, G.H. Blumenauer, G. Allan Burton, D.S.O., E.D., LL.D., Robert W. Campbell, Frank B. Common, Jr., Q.C. Camille A. Dagenais, C.C., LL.D., Mrs. Mitzi S. Dobrin, G. Campbell Eaton, O.C., M.C., C.D., LL.D., John R. Evans, C.C., M.D., Jock K. Finlayson, Rowland C. Frazee, W.D.H. Gardiner, D.R. Getty, Charles H. Knight, Walter F. Light, P.L.P. Macdonnell, C.M., Q.C., Clifford S. Malone, J. Pierre Maurer, Donald K. McIvor, Mrs. Dawn R. McKeag, W. Earle McLaughlin, J.W.E. Mingo, Q.C., Pierre A. Nadeau, J. Edward Newall, Paul Paré, O.C., Ralph A. Pfeiffer, Jr., Neil F. Phillips, Q.C., Herbert C. Pinder, Claude Pratte, Q.C., Charles I. Rathgeb, Allan R. Taylor, Peter N. Thomson, John A. Tory, Q.C., W.O. Twaits, C.C., Robert A. Utting, W.P. Wilder, C.N. Woodward and H.E. Wyatt.

Mr. J.B. Aune seconded the nominations.

The Chairman said: "Each of the persons nominated is prepared to serve as a director and has filed a statement that he qualifies under the provisions of the Bank Act. As a group, these nominees meet the requirements for the composition of a board of directors of a bank under the Bank Act."

The Chairman then asked if there were any further nominations.

It was moved by Mr. I.D. Mair and seconded by Mr. M.S. Hannon:

THAT the nominations be closed and that each of the persons nominated be elected a director of the Bank.

The Chairman stated that the motion was open for discussion. There being no discussion, the Chairman put the motion to the meeting. A ballot was taken and, upon receiving the Scrutineers' Report of the balloting, the Chairman declared the motion duly carried and the slate of names, as proposed, duly elected directors of the Bank.

It was moved by Mr. P.L.P. Macdonnell and seconded by Mr. P. Paré:

THAT Touche Ross & Co., and Price Waterhouse, be and they are hereby

appointed auditors of the Bank until the next ensuing Annual Meeting of the Common Share Holders.

The Chairman stated that the motion was open for discussion. There being no discussion, the Chairman put the motion to the meeting. A ballot was taken and, upon receiving the Scrutineers' Report of the balloting, the Chairman declared the motion duly carried.

It was moved by Mr. C. Pratte and seconded by Mr. J.A. Tory:

THAT the remuneration of the auditors covering their appointment until the next ensuing Annual Meeting of the Common Share Holders be fixed at a sum not to exceed $540,000 to be divided among them.

The Chairman stated that the motion was open for discussion. There being no discussion, the Chairman put the motion to the meeting. A ballot was taken and, upon receiving the Scrutineers' Report of the balloting, the Chairman declared the motion duly carried.

Sir Alastair Down expressed the thanks of the shareholders to the executive officers and staff of the Bank for the efficient manner in which they have performed their respective duties.

Mr. J.G. Macpherson replied on behalf of the officers and Mrs. Aline Courchesne on behalf of the staff.

The Chairman then made the following remarks:

"Before going on to the "Other Business" item on our agenda, there are a couple of matters on which I would like to comment briefly.

Shareholders who were with us last year will recall the change in policy regarding the submission of proxies. To ensure privacy, proxies are seen only by the designated Scrutineers, and not by the management of the Bank. Because of that change, among other reasons, we included a Comment or Question Card with the mailing this year, as a separate item. I am pleased that to date almost 600 shareholders have returned them, in many cases with requests for information, in some cases with criticisms and in some with compliments. We are grateful for all of them and will be replying to everyone who requested a response.

Before calling for questions from the floor, perhaps I might comment on two specific items. The first of these was raised by a number of shareholders, and concerned the quality of service to our customers, in particular line-ups in branches. I think you should know that this is a matter of utmost importance and high priority with the entire management of the Bank. It receives constant scrutiny, not only at Head Office, but at district and branch levels. Quicker and more efficient customer service is one of the driving purposes behind, for example, the technology improvements both Allan Taylor and I mentioned, and will continue to be. The quality of service we provide to customers says more about our Bank than any advertising or promotion we could do; no matter what improvements we make, we can never become complacent about quality of service. We said that directly to those shareholders who took the time to ask or comment specifically, but I thought it should be on the record for all.

The second item is a little outside the usual definition of banking. The United Nations has proclaimed 1985 as the International Year of Youth. Young people are, of course, important as clients and as employees of the Bank, but the Royal's interest goes far beyond these business dimensions. Our young people are our nation's single most precious resource. They are tomorrow's leaders and the pillars of tomorrow's society. We will reap the benefits of the investment we make in their education many times over, and I use the word education in the broadest sense.

I am proud to say we at the Royal are investing in this precious resource in a substantial way.

We have been sponsoring, for example, the Royal Bank Junior Olympics since 1973. To date nearly 5 million young Canadians have participated, learning about the Olympic movement through competition and instruction.

In December, we signed a four-year agreement to continue our partnership with the Canadian Olympic Association and between now and the end of 1988 we will spend 2 million dollars to finance this program.

The Royal is also a major supporter of the Special Olympics encouraging handicapped athletes to share the Olympic dream. And we are heavily involved in Junior Achievement, in Student Venture Capital and Youth Venture Capital Programmes, and in educational booklets on financial matters for schools. I mention these activities simply to underline the fact that during this International Year of Youth, as during other years, the Royal Bank's commitment to this precious resource, our young people, is a serious and continuing one."

There being no further business to transact, the Chairman declared the meeting terminated.

R.J. Moores
Vice-President and Secretary

Rowland C. Frazee
Chairman and Chief Executive Officer

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OF CANADA

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